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**Inland Revenue**  
Te Tari Taake

**Inland Revenue report: Transformation status update: October / November 2020**

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<b>Date:</b>	3 December 2020	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2020/457

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the contents of this report	None
Minister of Revenue	<b>Note</b> the contents of this report	None

**Contact for telephone discussion** (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Greg James	Deputy Commissioner, Transformation	Withheld under s18(c)(i) of the OIA.

3 December 2020

Minister of Finance  
Minister of Revenue**Transformation status update: October / November 2020****Executive summary**

1. This report summarises transformation progress and highlights for October and November 2020. These status updates are generally provided to you every month, with the exception of a combined December and January report usually sent to you in early February. This report covers two months as an October report was not prepared given the timing of the General Election.

2. We remain on track for a 1 March 2021 go-live for paid parental leave, unclaimed monies, duties and New Zealand foreign trusts (Release 4.1.1). Solution design was completed as planned on 23 October 2020. Testing is progressing well, with business system testing (making sure our new system START<sup>1</sup> works as expected) 77% complete overall as at 27 November. We have begun communicating with customers, with information sent to trustees and providers of New Zealand foreign trusts and to organisations holding unclaimed monies during November 2020.

3. The legislative changes needed to support improved administration of unclaimed monies and child support were reinstated on 26 November 2020. Child support will be moved to START later in 2021, likely in October.

4. Transformation's Red, Amber, Green (RAG) status remains light amber overall as shown in table 1 below. A light amber status means there are minor issues in some areas that can be resolved at programme level. There has been no change in any of the keys since the last report to Ministers (IR2020/342 refers).

Table 1: Transformation's RAG status

	Overall	Scope	Risk	Issues	Inter-dependencies	Schedule	Resources	Stakeholder Engagement	Delivery Partners	Financials	Benefits
CURRENT	Light Amber	Light Amber	Amber	Light Amber	Light Amber	Light Green	Light Amber	Green	Light Green	Green	Amber
PREVIOUS	Light Amber	Light Amber	Amber	Light Amber	Light Amber	Light Green	Light Amber	Green	Light Green	Green	Amber

5. We have adopted a ten keys programme management framework to ensure there is a clear understanding of objectives, scope, timescales, costs, dependencies and risks. The ten keys provide transparent planning and reporting:

- *Ensure scope is realistic and managed* – agree and manage the scope of work to be delivered to accomplish the programme's objectives.
- *Mitigate risks* – identify and evaluate risks, develop mitigations to effectively manage them and minimise impacts on the programme.
- *Mitigate issues* – identify and evaluate issues, develop mitigations to effectively manage them and minimise impacts on the programme.

<sup>1</sup> START stands for simplified tax and revenue technology and is the name we have chosen for the GenTax software provided by FAST Enterprises LLC

- *Coordinate inter-dependencies* – identify and coordinate all projects which have a high level of dependence with the programme.
- *Plan so work and schedule are predictable* – ensure the programme plan is realistic and documents the major milestones and deliverables for all phases.
- *Mobilise and direct high performance teams* – recruit, lead and motivate the people necessary for successful completion.
- *Confirm stakeholders are committed* – identify and maintain support amongst individuals and groups affected by or influencing the programme.
- *Support mutually beneficial partnerships* – establish and manage meaningful and effective relationships with key delivery partners, based on sound contracts and contract management processes.
- *Ensure cost is managed and on track* – maintain an up-to-date forecast for the programme, and measure, manage and report actual costs against budget.
- *Realise benefits* – estimate, measure, and monitor the benefits to be derived from the programme.

6. Table 2 below provides information about expenditure on the programme to date, and planned expenditure for the current year.

Table 2: Transformation expenditure

Previous phases		Operating expenditure (excluding depreciation and capital charge) \$ millions			Capital expenditure \$ millions		
		Budget	Actual	Variance	Budget	Actual	Variance
Pre-Design/Design	1 Jul 14-31 Dec 15	\$85.1	\$74.4	\$10.7	\$1.4	\$0.6	\$0.9
Delivery - Stage 1	1 Jan 16-28 Feb 17	\$131.8	\$114.7	\$17.1	\$76.3	\$72.6	\$3.7
Delivery - Release 2	1 Mar 17-30 Jun 18	\$248.4	\$224.8	\$23.5	\$114.8	\$111.4	\$3.4
Delivery - Release 3	1 Jul 18-30 Jun 19	\$179.4	\$169.5	\$9.9	\$96.3	\$93.8	\$2.5
Delivery - Release 4	1 Jul 19-30 Jun 20	\$205.8	\$163.6	\$42.2	\$103.0	\$96.5	\$6.5
Total for completed phases		\$850.4	\$747.0	\$103.4	\$391.9	\$374.9	\$17.0
Current phase		Budget	Forecast	Variance	Budget	Forecast	Variance
Delivery - Stage 4	1 Jul 20-30 Jun 22	\$159.6	\$159.6	\$0.0	\$78.6	\$78.6	\$0.0
Transitional costs	1 Jul 20-30 Jun 21	\$33.8	\$33.8	\$0.0	\$0.0	\$0.0	\$0.0
Contingency	1 Jul 20-30 Jun 22	\$14.8	\$14.8	\$0.0	\$9.7	\$9.7	\$0.0
Total for current phase		\$208.2	\$208.2	\$0.0	\$88.3	\$88.3	\$0.0

### **Budget performance to date**

7. Between 1 July 2014 and 30 June 2020, the programme spent \$747 million in operating, and \$374.9 million in capital. Any under-spending to date has either been moved to later periods or returned to the Crown.

### **Stage 4 budget**

8. Including the contingency held by the Commissioner and transitional funding the overall budget for the current phase of transformation, Stage 4, is \$208.2 million for operating expenditure and \$88.3 million for capital expenditure.

**Recommended action**

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9. I recommend that you **note** the contents of this report.

Noted

Noted

**Greg James**

Deputy Commissioner, Transformation  
3 December 2020

**Hon Grant Robertson**

Minister of Finance  
/ /2020

**Hon David Parker**

Minister of Revenue  
/ /2020

## **Stage 4 first release update**

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10. We remain on track to go-live on 1 March 2021 with paid parental leave, unclaimed monies, New Zealand foreign trusts, and duties. This release, known as Release 4.1.1 (Stage 4, workstream 1, release 1), will move these products from heritage systems and processes to START.

11. As this is a smaller release, we will be closed to customers for a much shorter period of time than for previous releases. Our systems will be unavailable from 5pm on Friday 26 February 2021 and back up again by 8am on Monday 1 March 2021.

### ***Solution design and testing***

12. We completed solution design on 23 October 2020 as planned.

13. Testing is progressing well and business system testing (making sure START works as expected) is tracking close to plan with no major barriers to progress. Overall, as at 27 November 2020, we are sitting at 77% complete, with testing on duties and on New Zealand foreign trusts already completed, testing on paid parental leave 73% complete and unclaimed monies 74% complete. We are on track to complete business system testing by 29 January 2021.

14. We have multiple phases of testing ahead of each release. In addition to business system testing, we will also run two mock go-lives (a full dress rehearsal for go-live). The first mock go-live is scheduled to take place from 30 November to 4 December 2020. The second will run from 26 to 28 January 2021.

15. There will also be two rounds of scaled business simulation testing (practicing go-live step-by-step). The first will run from 11 to 22 January 2021 and the second will run from 1 to 12 February 2021.

### ***Readying our people***

16. Training for our people begins in December 2020 and will continue through to March 2021. As we have done for previous releases, we are adopting a 70:20:10 approach - 70% on the job learning, 20% through social learning, i.e. talking with other team members, and 10% formal training. Formal training includes classroom sessions and online modules.

17. As this is a smaller release, we have fewer people requiring training. For example, there are only approximately 50 people who need to attend classroom training between now and go-live. In previous releases, there have been a much higher number of people needing face-to-face training. For Release 4, approximately 3,800 of our people attended classroom training of between one and three days depending on their role. As most of our people's work is now in START, the effort required to train people for each new release is much reduced.

### ***Readying our customers***

18. As previously reported (IR2020/342 refers), the 1 March 2021 changes have a medium impact overall for customers, with many pockets of low impact and some pockets of high impact. Many of the changes require customers to move from manual and entirely paper-based services and processes to digital, with filing and paying through myIR, our secure online service. Most changes should be received positively, or at least be viewed neutrally.

19. We will take a highly targeted approach to communicating these changes. We will primarily use direct marketing, including letters, emails and text messages. This activity began in November 2020 and will run until April 2021. There will be a small amount of

advertising activity for paid parental leave, which is scheduled to run from January to March 2021. As the amount we plan to spend on advertising is less than \$150,000 (excluding GST), it will be approved by the Commissioner or her delegate as per Cabinet Office Circular CO 18 (2).

20. We will work first with professional bodies and industry associations so they are aware of what the changes mean for their members, and with impacted organisations before we communicate to their clients or customers. Tax agents are a key group for us and to ensure they are aware of the proposed changes prior to their clients, we will communicate with them directly through email and our Agents Answers newsletter. The first webinar for tax agents, an introduction to Stage 4, was made available on our website on 25 November 2020. As at 2 December 2020, the webinar had had 89 views. We expect the number of views to increase once Agents Answers, our newsletter for tax agents, is published in early December. From our observations with previous releases, we expect that most tax agents will focus on understanding the upcoming changes much closer to the go-live date.

21. For unclaimed monies we will communicate directly to the holders of these funds such as banks, law firms and other institutions. We will not proactively contact potential claimants.

22. We will communicate directly with trustees or providers of New Zealand foreign trusts. Our team who manage New Zealand foreign trusts use an Inland Revenue email address and letters to communicate directly with trustees and providers. We will use these channels where possible as customers are already familiar with them. We will encourage providers to pass on the details of the changes for the trusts they manage.

23. For paid parental leave we will reach the approximately 15,000 people receiving payments through targeted marketing, including email, letters, text, social media, and targeted online advertising. Expectant parents who are yet to apply for paid parental leave will be notified at the source, i.e. on relevant websites and in myIR when they apply.

## **Other updates**

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### ***Stage 4 workstreams***

24. Stage 4 is comprised of five workstreams:

- *Complete the core.* Move the final products to new systems and processes. We will do this across two releases, with the first release going live on 1 March 2021.
- *Optimise our technology landscape.* This involves ensuring that the underlying technology infrastructure is up to date and sustainable post-transformation, and the structured and timely decommissioning of heritage systems and processes, including our heritage data centres, and enabling any archiving requirements.
- *Complete the intelligence-led programme of work.* The handover of new analytical capabilities and information knowledge management tools to business-as-usual teams will be completed in phases from June 2020 to June 2021.
- *Complete the implementation of Ātea.* This is the replacement of the internal systems and processes that support the day-to-day running of Inland Revenue.
- *Ensure a smooth transition to the post-transformation operating model.* This work will focus on developing and transitioning of the services, processes, frameworks and methods that will endure post-transformation and help to ensure that Inland Revenue can operate sustainably after transformation is complete.

#### **Stage 4 second release (Release 4.1.2)**

25. We will move child support to new systems and process in October 2021. A solution design review workshop with our people will be run in January 2021. This will be a collaborative session with people from the programme and wider business. It is designed to ensure we have a complete and connected design for child support and will help us identify and gaps or areas we need to further explore.

26. As part of this release, we will upgrade START and myIR to a newer version. Everyone who uses myIR will see changes to the navigation and look and feel, including how information they need to act on is presented and how summary views and balances are displayed. We are engaging with key stakeholders through the design, build and testing phases to ensure we get this right.

#### **Policy**

27. The Child Support Amendment Bill and the Taxation (Annual Rates for 2020–21, Feasibility Expenditure, and Remedial Matters) Bill, and their Supplementary Order Papers (SOPs) were reinstated on 26 November 2020.

28. These Bills and their SOPs contain proposals to simplify the administration of unclaimed monies and child support.

#### **Replacement of E-File**

29. E-File is a service which allows tax agents to manage their clients' accounts with us. It is being decommissioned on 16 April 2021 as it uses old technology and doesn't meet all current needs. It is being replaced, and enhanced, with new gateway services which software providers are building into their systems.

30. The new services have been designed to improve customer experiences and provide all the same functionality that E-File does today, along with some new functionality. For example, tax intermediaries will be able to attach documents when filing. In developing these new services, we have taken into account feedback from users of E-File about what improvements they would like to see.

31. We have been working closely with software providers for a considerable time now to ensure a smooth transition and to provide them with clear information to share directly with their clients. Software providers will lead and manage communications to their clients, including guidance and training on how to use the new system. We will support providers with material and information where needed.

32. Providers are choosing what functionality to build before E-File is decommissioned, focusing on the most critical for their clients. They may choose to build other functionality over time.

#### **Independent quality assurance review**

33. A Gateway 0 review (a strategic assessment) was completed during the week beginning 23 November 2020. The findings of the review are positive. Overall, the review team rated transformation as amber/green, which means "Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery".

34. Reviewers noted that transformation "...continues to be a strongly led programme with a mature delivery approach". They did sound a note of caution: "Having achieved so much thus far, BT needs to be drawn to a close in a controlled manner...". They further noted that "... the temptation to overstretch IR's capability should be resisted until BT is closed".

35. We will report the full findings to you and the Minister of Finance in the New Year.
36. A further gateway review and KPMG's twelfth independent quality assurance and eleventh technical quality assurance review (IQA12/TQA11) are scheduled for mid-2021.

## **Key risks and issues**

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37. The transformation programme's risk profile remains amber<sup>2</sup>, with a future trend of amber. An amber profile means that risks and mitigations are reasonably defined and understood, and support is needed from senior leaders to actively manage specific issues in some areas.
38. We are monitoring two issues (a risk that has been realised).
39. The first issue relates to the impact of the COVID-19 pandemic on the delivery of the programme. There are no concerns to report at this time. We are intending to go-live remotely with the first release in Stage 4 to mitigate the risk of any further COVID-related disruption. This release will move paid parental leave, New Zealand foreign trusts, duties and unclaimed monies to new systems and processes on 1 March 2021.
40. The second issue relates to how employers will send us employment income information from 1 April 2021 when using a new version of our employment service within gateway services. One of our early adopters (a payroll developer who provides payroll packages to employers) told us that the customer experience is not as good as it is when using the current version due to how amendments are processed. We have since resolved all the issues raised.
41. As at November 2020, the programme has a total of 58 open risks<sup>3</sup>, of which 15 are reported to the Portfolio Governance Committee (PGC).
42. Since the last report to Ministers (IR2020/342 refers), one risk that was previously managed at programme level has been escalated to the PGC. This risk relates to the organisation design changes currently underway. There is a risk these changes could distract some of the key resources working in the programme as they will be implemented during the lead up to go-live of the first release in Stage 4. The current rating of this risk is very high. The likelihood of this risk occurring is likely (a 21% to 50% chance of occurring). We have assessed the current consequence as major if the risk did eventuate. We have a number of mitigations in place to manage this risk. They include a comprehensive programme transition plan, a formal responsibility and knowledge transfer process and plan that is aligned to implementation of Inland Revenue's future operating model.
43. There is no change to the status of any of the other risks reported to the PGC.
44. The top three risks for transformation relate to the need to move off all our heritage applications by 1 July 2022, so that we can fully decommission our heritage data centres. Failing to exit the Unisys data centres by the contracted date has financial consequences but, more importantly, Unisys are exiting this business, handing the facilities back to the owners, and removing all technology hardware. The date that we have been given is a hard deadline with only limited leeway. We have strong mitigations in place and the following paragraphs provide an overview of these risks.

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<sup>2</sup> The risk RAG status is separate from the overall programme status which is light amber as stated on page 2. Table 1 on page 2 shows the RAG key for risk as amber and the overall programme rating as light amber.

<sup>3</sup> During October and November, four new programme risks were accepted and two were closed.

45. SAP is a heritage system that we use for all back-office processes including financials and payroll. We also use this system to make paid parental leave payments. To date, we have moved all of our financial processes, including procurement, to our new enterprise support services system<sup>4</sup> which we have named Ātea. We have yet to move payroll. On 30 September 2020, we released a request for proposal (RFP) for a new payroll solution to enable us to completely decommission SAP. We are currently evaluating the responses. We are on track to move paid parental leave to START on 1 March 2021.

46. Replacing a payroll system takes time and, depending on the outcome of the RFP, the time required for implementation may exceed the deadline for exiting the heritage data centre. The current rating of this risk is very high as a result. The likelihood of this risk occurring is possible (an 11% to 20% chance of occurring), with major consequences if it did. We have investigated a number of options including shifting our current payroll to another processing location, which it is possible to do. The timing of triggering that decision will be based on the responses to the RFP and we should know this by very early 2021.

47. We have been progressively replacing our old system, FIRST, with START over the past three to four years. We have two remaining START releases to complete, one on 1 March 2021 and the other at the end of 2021. At that point we will have moved all necessary functions to START. FIRST can then be switched off and archiving completed. To progress this, we have been removing user access to FIRST progressively and have procedures and plans in place for data archiving. FIRST has a number of satellite functions (processes that are attached to FIRST), that if not able to be replaced in time could impact our ability to stop using heritage functions in time to complete our decommissioning process and exit the data centres. For example, E-File used by tax agents and a function used by KiwiSaver providers to automatically send data to us. The risk level is currently rated as very high.

48. The likelihood of this risk occurring is likely (a 21% to 50% chance of occurring) and the consequences would be major if it did eventuate. We have a detailed view of all of the satellite functions and we are progressing engagement with those who use them to move them to the new services. There could be delays to their ability to move given everything else that is going on in the business environment (the impact of COVID 19 for instance). We are providing as much support as possible to facilitate the move and we have been progressing this for some time. Current indications are that most of our partners will be on the new services by the end of 2021 (at worst, at the end of February 2022). We are looking at contingency options in case we have any "stragglers".

### **Coming up in the next two months**

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49. Key activities for Release 4.1.1 going live on 1 March 2021 over the next two months include:

#### **December 2020**

- Complete the first mock go-live (a full dress rehearsal for go-live).
- Complete checkpoint 2 in the readiness assessment framework (this checkpoint assesses whether we are on track for go-live).
- Complete business system testing (making sure START works as expected).

#### **January 2021**

- Classroom training begins.

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<sup>4</sup> The internal systems and processes that support the day-to-day running of Inland Revenue.

- Scaled business simulation testing (practicing go-live step-by-step) begins.
- Complete the second mock go-live.
- Child support solution design review workshop with our people.